

# **Exhibit H**

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**Notes from August 19, 2011 - Executive Session of All Commissioners**

Attendance: Commissioners D. Samson, V. Bauer\*, S. Grayson, H.S. Holmes, J. Lynford, J. Moerdler, R. Pocino, S. Rechler, A. Sartor, W.P. Schuber, H. Silverman\*, D. Steiner; C. Ward; B. Baroni, D. Buchbinder, E. Butcher, M. Fabiano, C. Fulton, L. Handel, C. Hartwyk, J. Loftus, J. McCoy, P. O'Reilly, D. Tweedy, D. Warshaw, D. Wildstein; J. Jones (NJS Governor's Office)

*\*Participated via telephone*

**Proposed Toll and Fare Increase**

Chairman Samson stated that following an intense review of the originally proposed toll and fare increase proposed by staff, the Governors' offices have given their full attention to this matter. They have been actively involved in reviewing the proposal and working with staff on variations to the initial proposal. He noted that the Commissioners were provided with a copy of a letter last night from Governors Christie and Cuomo outlining revisions to the toll and fare proposal.

The Chairman stated that on behalf of the Board he would like to thank Michael Fabiano and his staff for their outstanding work over the past two weeks.

Michael Fabiano presented the newly proposed toll and fare structure. He reviewed the current financial environment, including the effects the historic recession has had on the agency. He noted that activity levels are down at all facilities and increases in security costs have risen dramatically since September 11, 2001. Mike stated that over the past three years, the agency has been managing to zero growth operating budgets and has been deferring capital spending.

Mike stated that in order to maintain and grow the critical transportation infrastructure that serves the region, the proposed toll and fare increases are essential if the Port Authority is to have the financial capabilities necessary to drive the region forward. He reviewed the newly proposed toll and fare structure as developed in consultation with the Governors. He noted that under this proposal, the E-ZPass toll for cars would be raised \$1.50 in September 2011 and \$.75 each December starting in 2012 through 2015 and truck tolls would be raised by \$2 per axle in September 2011 and each December starting in 2012 through December 2015. Cars and trucks not using E-ZPass would pay a penalty of \$2 per car and \$3 per truck axle. PATH fares would increase \$.25 in September and again in each October starting in 2012 through 2014. He stated that taken together, these increases as modified from the initial proposal put forward would ensure our continued financial stability, and would create tens of thousands of jobs and improve our infrastructure.

Mike reviewed the public hearing process that was conducted earlier in the week.

Mike stated that the toll and fare increases as proposed would allow the agency to invest \$25.1 billion in critical infrastructure projects that will provide an efficient, safe and secure transportation network for our customers who rely on us each day. This will also allow the agency to access the capital markets while maintaining our strong credit ratings and meeting all of our statutory bond covenants.

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Mike reviewed the three standard rating agency ratio evaluation metrics for years 2011 through 2020. He noted that the additional bonds test must meet or exceed the 1.3x limit. He further noted that the current coverage ratio is net operating revenues to debt service to operations and that this ratio must exceed 1.4x. He stated that the total debt coverage ratio is total debt to gross operating revenues and that this ratio must not exceed 5.0x.

Mike provided an overview of significant capital projects that would be included in the Capital Plan for Tunnels, Bridges and Terminals, PATH, Aviation, Port Commerce, and the World Trade Center site.

Mike stated that while staff recognizes the difficulty in deciding to raise tolls and fares at this time, it is necessary in order to meet critical facility needs now as well as in the future. He noted that over the next four years, the Port Authority would need to fund approximately \$15 billion in capital spending. Over the next 10 years, 131,000 new jobs will be created, \$7.6 billion in wages and \$30 billion in regional economic activity because of our capital expenditures.

Commissioner Sartor added that this being his third toll increase as a Commissioner, he agreed that staff did an exceptional job. The Commissioner asked how we would handle funding for the World Trade Center site above the \$11.3 billion budget if it becomes necessary. – *We would need to push out other projects in the Capital Plan to accommodate any additional increases to the WTC budget. Staff will be firming up the Capital Plan between now and the end of the year.*

Bill Baroni noted that the Governors also directed that a comprehensive review of the agency's finances be undertaken, including the Capital Plan.

Commissioner Steiner asked if staff had ever calculated tolls from 40 years ago to today and what they would be today based on increases to the Consumer Price Index. – *We believe it was close to or below the proposed structure.*

Commissioner Moerdler stated that we should do a comparison to other relevant items such as the price of a gallon of milk, as well as fares of the Metropolitan Transportation Authority and other public transportation entities.

The Chairman stated that staff has performed some assessments and believe we compare favorably to the MTA.

Commissioner Rechler stated that he would also like to compliment Chris Ward and Drew Warshaw in working towards obtaining supportive editorials on the toll and fare increase.

The Chairman stated that Commissioner Pocino also provided a tremendous amount of support.

Commissioner Pocino stated that thanks should also go to members of the labor unions who are honest and good citizens who need jobs and recognize the Port Authority's ability to stimulate the economy through its capital program. The Commissioner then stated that the Port Authority staff did a tremendous job and noted that thanks should also go to Bill Baroni and the Chairman, as well as both Governors for their leadership.

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Commissioner Rechler stated that based on the revised proposal, the capital capacity was reduced from \$30 billion to \$25 billion, as a Board, we have an obligation to be creative regarding reviewing what businesses can be privatized, whether it is a bridge or portions of the WTC site. The Commissioner stated that the Commissioners need to maintain a sense of urgency as there is no cushion in the capital plan and the next 24 months will be critical to carry through on plans that support the regional economy and transportation infrastructure.

Commissioner Moerdler expressed concern with the projects that will not be funded, such as the LaGuardia Central Terminal Building, Terminal A at Newark Liberty International Airport, and the bus garage for the Port Authority Bus Terminal. He stated that the Board needs a report on these projects and how we are going to preserve our ability to move these projects along, which are good for the region. The Commissioner then asked where we stand with increases to tolls via CPI. – *This ability is still in place via prior authorization, but the new technology to enable this is not presently in place. The new toll system will be operational by 2016/2017, at which point we would be ready to deploy All Electronic Tolling upon resolution of the legislative issues.* Commissioner Moerdler then stated that the MTA is doing a trial on cashless tolls and one issue is people who have no E-ZPass. They have started selling disposable/non-tracked E-ZPass tags that can be replenished as needed. He noted that this idea would seem to address privacy issues and would work for those individuals with no credit cards or bank accounts. The Commissioner stated that staff should be looking to implement such a program. -- *Staff is currently reviewing such an alternative for potential implementation.*

Commissioner Lynford stated that he would also like to acknowledge Jim Mackey of Mike Fabiano's staff. The Commissioner then stated that it is important that debt issuance be handled in a manner that maintains our AA- rating and asked the Chief Financial Officer to review how this would be laid out in the coming months.

Michael Fabiano provided an overview of upcoming debt issuance plans. Mike stated that going forward, by 2020 we will have \$22.7 billion in bonds outstanding, as compared to \$15.5 billion currently. However, our revenues are also forecast to, and must increase, as our debt service would grow from \$400 million to just over \$1 billion.

Commissioner Schuber stated that he is pleased with the process and believes it was open and fair. He was particularly interested and pleased with the on-line public hearing that was held. The Commissioner stated that he was comfortable with the information provided to the Board, including the transcripts and confident that this is the right thing to do.

The Chairman stated that both Chris Ward and Bill Baroni did an exceptional job in dealing with difficult decisions and in bringing forward today's proposed actions.

Bill Baroni stated that we looked at and priced the Capital Plan to determine how much we could afford while maintaining our financial good standing. Since the agency put forth its initial toll and fare proposal, we have worked with Chairman Samson, Commissioners Rechler and Lynford, and a team from both Trenton and Albany. We reviewed numerous scenarios based on direction from the Governors. Public Hearings commenced on Tuesday of this week. We had 1,600 attendees at nine hearings in both States and a meeting on Staten Island, and over 100 individuals participated in an on-line hearing. More than 60 organizations voiced their support for the proposed increases. Based on direction from the Governors, our next steps will be to begin a structural review of the agency,

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including a line-by-line audit of the Capital Plan. We fully understand the direction provided by the Governors and their demand for accountability in both our capital investment and operations.

Commissioner Sartor asked if the audit would be performed internally or externally. – *It would be conducted through the Committee on Operations in consultation with the Audit Committee.*

Commissioner Rechler stated that this is not a question of a financial audit but reviewing the Capital Plan, and is not a question of the integrity of the numbers but taking a step back and looking at the situations we find ourselves in and identifying today's priorities. For example, the Commissioner noted that we might want to rethink the retail joint venture at the World Trade Center site and see if Westfield can take on more of the capital expenditures. The Commissioner then stated that we need to approach this effort with the same level of tenacity as staff has exhibited in delivering the Memorial.

The Chairman stated that we need to look across the board and determine where we have contractual obligations and conduct a full business assessment and be flexible and creative to save money.

Commissioner Steiner stated that we also need to take a hard stand on overtime.

The Chairman stated that the Governors have directed us to undertake a full assessment to determine where the agency can save money, including compensation and benefits, while respecting the dignity of those involved.

The Board agreed to move the item to the public Board meeting for approval.